

Manufacturing recovery slows due to widespread lockdowns in September

The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) eased by 0.4 points to 51.2 points, indicating a weaker rate of expansion across manufacturing in September and effectively stalling a solid period of recovery since late 2020 (seas. adj). Although remaining mildly positive, this was the weakest monthly result for the **Australian PMI®** since September 2020. Results above 50 points indicate expansion, with higher results indicating a faster rate of expansion.

The activity indexes in the **Australian PMI®** indicate that in September, average sales, employment and delivery levels paused or contracted. Forward orders and inventories continued to expand, suggesting that sales are being delayed. Exports and production improved, with both indexes moving back into mild expansion. The **Australian PMI®** capacity utilisation index eased further from its recent series high in April and May 2021.

Indexes for four of the six manufacturing sectors in the **Australian PMI®** reduced in September (seasonally adjusted). Machinery & equipment, TCF, paper & printing fell into contraction (under 50 points), while food & beverages paused. Respondents from these sectors reported persistent lockdowns, supply chain delays and limited availability of skilled labour as major challenges in September. Metal products and building materials manufacturers reported a mild recovery in September after a contraction in August, due to strong demand from house builders.

Outside of NSW and Victoria, respondents reported continued demand in all manufacturing sectors, including products that supply the construction, agricultural and transport sectors. **Australian PMI®** indicators for non-food manufacturing in NSW and Victoria remained in contraction in September.

September 2021

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Australian PMI® ▼ 0.4 points (seasonally adjusted)	51.2
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Australian PMI® ▼ 2.2 points (trend)	53.9
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Food & beverages ▼ 6.0 points (seas. adj.)	50.5
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Machinery & equipment ▼ 2.0 points (seas. adj.)	48.4
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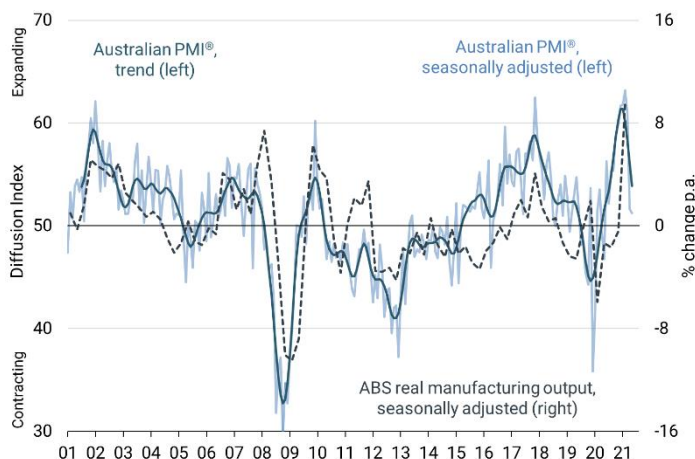
Metal products ▲ 8.7 points (seas. adj.)	54.2
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Chemicals ▼ 2.2 points (seas. adj.)	54.2
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Building materials, wood & other ▲ 8.9 points (seas. adj.)	51.3
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TCF, paper & printing ▼ 6.4 points (seas. adj.)	46.9
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Australian PMI® and ABS manufacturing output



Manufacturing sectors: Of the six manufacturing sectors in the **Australian PMI®** metal products, chemicals and building materials expanded in September (results above 50 points, seasonally adjusted), partly due to eased restrictions of construction activity in NSW. Food & beverages stalled, with no growth in the month and the lowest monthly index result since November 2020. Machinery & equipment and TCF, paper & printing manufacturing slid into contraction in September.

Manufacturing wages and prices: The **Australian PMI®** input price index eased further from its record high in July, but remained relatively strong in September at 78.1 points (seasonally adjusted). Manufacturers continued to report high freight costs. The selling prices index edged higher in September, which suggests more manufacturers are passing on some of their cost increases to their customers. The **Australian PMI®** average wages index stalled in September after recording a recent spike in July, when most of the annual wage rises in manufacturing typically occur (seasonally adjusted).

Manufacturing activity: Three of the seven activity indexes fell in September, with the largest falls in the employment and new orders indexes. New orders remain positive, which augurs well for future growth after lockdowns. Sales and supplier deliveries contracted moderately, as manufacturers in NSW and Vic reported shipping disruptions and reduced operations.

Manufacturing highlights: Outside of NSW and Victoria, respondents continued to report strong demand for a wide range of locally manufactured products, including demand from customers in the construction, agricultural and transport sectors. Some respondents said they were receiving increased orders from customers in these industries who are seeking more localised sources of supply in order to increase certainty and reliability in their own supply chains.

Manufacturing concerns: Manufacturing activity and sales continued to be severely disrupted in NSW and Victoria in September due to ongoing lockdowns. Many manufacturers in these states reported operating at reduced capacity or closing completely. Some reported a limited workforce presence on site due to the residential locations of their staff. Nationally, respondents are reporting high prices for various metals, raw materials and imported components. High international freight costs continued to have a negative effect on manufacturers who are importing and exporting.

AUSTRALIAN PMI® KEY NUMBERS	Index this month	Change from last month	Long-run average	AUSTRALIAN PMI® SECTORS	Index this month	Change from last month	Long-run average
<i>seasonally adjusted</i>				<i>seasonally adjusted</i>			
Australian PMI®	51.2	-0.4	50.8	Sectors			
Production	53.1	2.9	51.6	Food & beverages	50.5	-6.0	53.9
Employment	47.1	-4.3	49.2	Machinery & equipment	48.4	-2.0	50.3
New Orders	52.0	-5.1	51.5	Metals products	54.2	8.7	47.5
Supplier Deliveries	49.2	7.9	51.0	Petroleum, coal, chemicals & rubber products	54.2	-2.2	51.7
Finished stocks	56.0	1.0	49.8	Building, wood, furniture & other products	51.3	8.9	50.0
Exports	51.9	6.8	50.1	Textiles, clothing, footwear, paper & printing	46.9	-6.4	47.0
Sales	48.5	-1.4	49.5	trend			
Input Prices	78.1	-3.2	67.8	Australian PMI®	53.9	-2.2	50.8
Selling Prices	64.7	3.0	48.8				
Average Wages	52.9	-9.5	58.8				
Capacity Utilisation (%)	77.0	-2.0	74.3				

Results above 50 points indicate expansion.

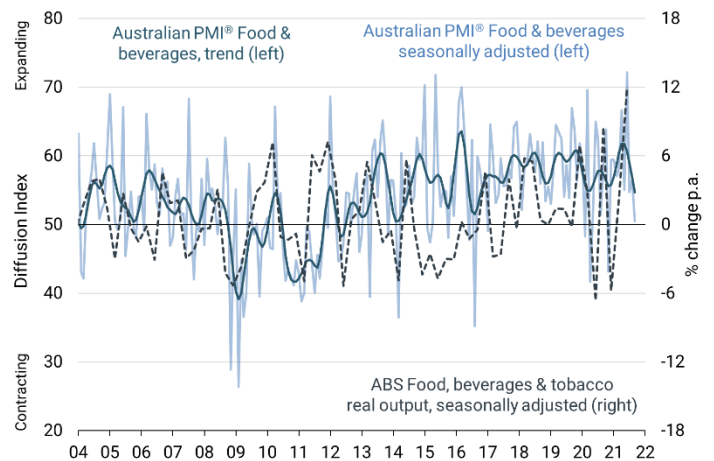
Trend indexes in the Australia PMI® are calculated with a Henderson 13-month filter.

MANUFACTURING REPORT CARD: Latest ABS data	Level	change q/q	change y/y	Share of total
<i>Latest ABS data, seasonally adjusted</i>	\$bn	%	%	%
Real value-added output, \$bn, year to Jun 2021	109.9	2.3	1.4	5.6% of total GDP
Nominal sales, \$bn, year to Jun 2021	363.7	1.0	1.0	12.2% of non-farm business sales
Nominal export earnings, \$bn, year to Jul 2021	117.2	1.1	-5.2	24.9% of total export earnings
Nominal company profits (GOP), \$bn, year to Jun 2021	38.5	0.6	16.2	8.4% of non-farm company profits
Real investment (CAPEX), \$bn, year to Jun 2021	9.8	2.9	4.4	8.1% of non-farm private sector CAPEX
Nominal aggregate wages, \$bn, year to Jun 2021	56.2	1.1	1.1	9.4% of non-farm business wages
Manufacturing filled jobs, Jun 2021	907.9	0.3	2.1	6.3% of filled jobs
Employing manufacturing businesses, 2019-20	46,733	N/A	-0.5	5.3% of employing businesses

ABS sources: Australian National Accounts; Australian Business Indicators; CAPEX; International Trade; Labour Force Survey, Business Counts.

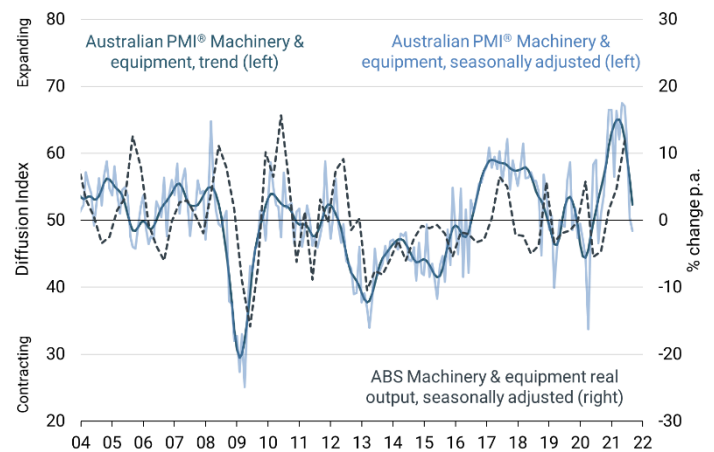
Food & beverages

- The food and beverages (& tobacco) sector produced \$28.1bn in real value-added output in the year to Q2 2021 (26% of manufacturing real value-added output). It employed 247,000 people in August 2021 (27% of manufacturing employment, ABS data). It is Australia’s largest manufacturing sector.
- The index for the food and beverages sector fell by 6.0 points to 50.5 points in September, indicating a pause in the recent period of recovery and expansion (seasonally adjusted). This is likely to be a result of widespread lockdowns in August and September.
- Supermarket and grocery sales remain high during lockdowns across many parts of Australia, but sales to the restaurant industry and overseas markets are lower.



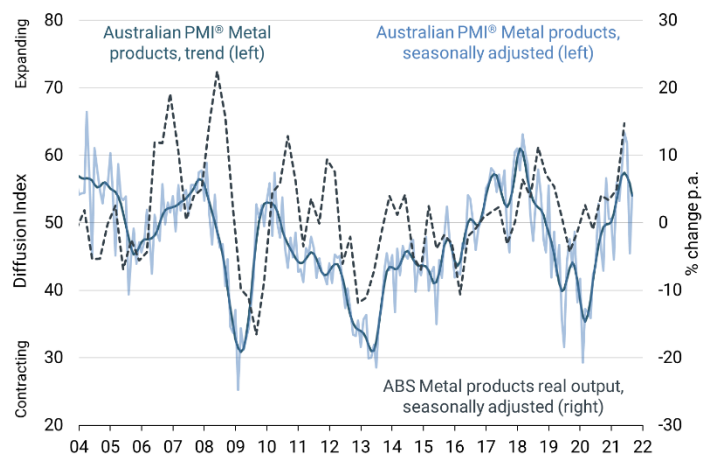
Machinery & Equipment

- The machinery & equipment sector produced \$23.2bn in real value-added output in the year to Q2 2021 (21% of manufacturing real value-added output). It employed 188,000 people in August 2021 (21% of manufacturing employment, ABS data).
- The index for the machinery & equipment sector eased by 2.0 points to 48.4 points in September, indicating a contraction in activity since last month (seas. adj.).
- Outside of NSW and Victoria, machinery & equipment manufacturers said demand is strong from customers in the agricultural and transport sectors. Supply chain disruptions are a key concern in this sector nationally.



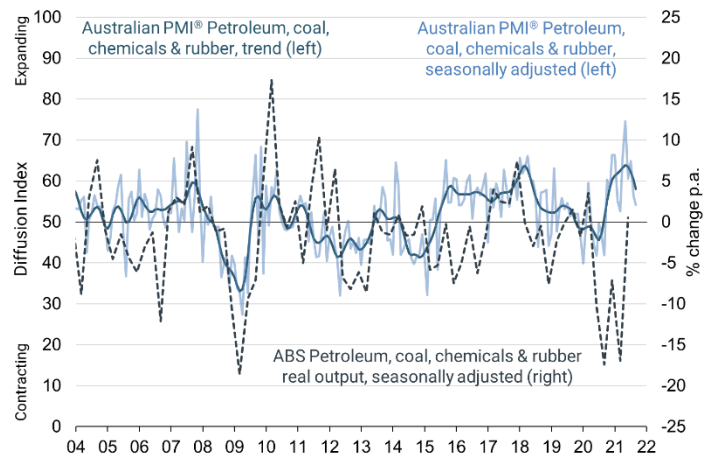
Metal Products

- The metal products sector produced \$18.6bn in real value-added output in the year to Q2 2021 (17% of manufacturing real value-added output). It employed 143,000 people in August 2021 (16% of manufacturing employment, ABS data).
- The metal products index improved by 8.7 points to 54.2 points in September, indicating some recovery from the sudden contraction in August (seas. adj.). Some respondents reported an increase in demand from the agricultural and transport industries, due to market seasonality, plus a boom in the house building industry. However, some respondents continued to report slower demand due to lockdown requirements in NSW and Vic.



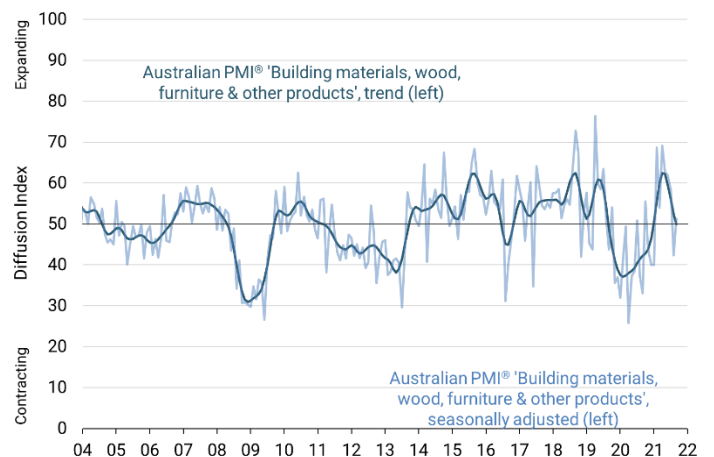
Petroleum, coal, chemicals & rubber

- The petroleum, coal, chemicals & rubber sector produced \$17.5bn in real value-added output in the year to Q2 2021 (16% of manufacturing real value-added output). It employed 95,000 people in August 2021 (11% of manufacturing employment, ABS data). This diverse sector produces chemicals, fertilisers, toiletries, pharmaceuticals, health supplements and rubber items, as well as paints, adhesives and surface treatments.
- The chemicals sector's index eased by 2.2 points but stayed in expansion at 54.2 points in September, indicating a moderating rate of growth (seas. adj.).
- Manufacturers of personal care items that are sold in supermarkets reported strong sales, while manufacturers of industrial and construction-related products reported a decline in sales due to COVID-19 lockdowns. Some reported operational disruptions due to lockdown activity requirements in NSW and Victoria.



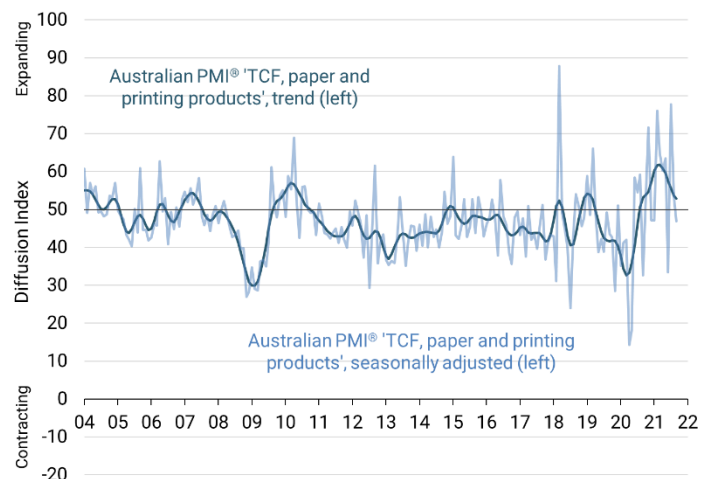
Building materials, wood, furniture & other manufacturing products

- The building materials, wood, furniture & other products sector employed 143,000 people in August 2021 (16% of manufacturing employment, ABS data).
- This sector includes building-related products such as glass, bricks, cement, tiles, porcelain, timber, furniture, furnishings and other household products.
- The index for the building materials, furniture and other manufacturing products rose by 8.9 points to 51.3 points in September (seas. adj.). Respondents in this sector reported improved demand and some said they are considering increasing their staff.



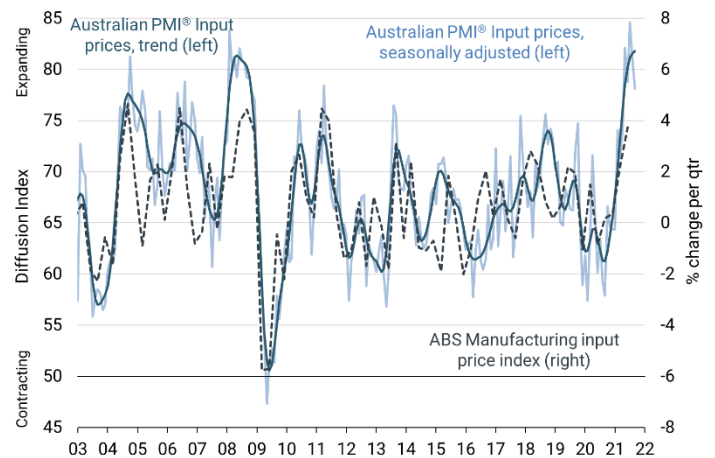
TCF, paper and printing products

- The textiles, clothing, footwear (TCF), paper & printing products sector employed 85,000 people in August 2021 (9% of manufacturing employment, ABS data).
- This sector makes textiles, clothing, footwear, paper, cardboard, packaging, printed and recorded products.
- The index for this sector fell by 6.4 points to 46.9 points in September, indicating a small contraction in the month, after two months of solid recovery (seas. adj.).
- Respondents in this sector reported a pause in demand and production due to shipping disruptions, lockdowns and school closures in NSW and Victoria.



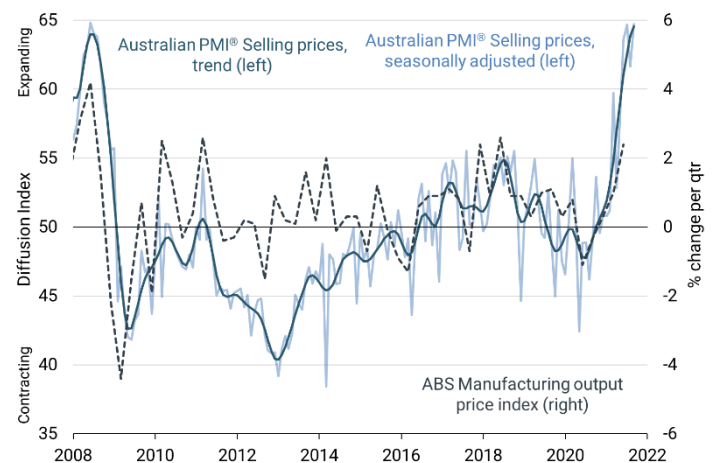
Input prices

- Manufacturers' input prices rose by an average of 3.7% over the quarter and 6.6% over the year to Q2 of 2021 (ABS, *Producer Price Index*).
- The **Australian PMI®** input price index eased by 3.2 points to 78.1 points in September (seasonally adjusted), indicating input prices increased at a swift pace in September but at a slightly slower pace than the record high for this index that was recorded in July 2021.
- Manufacturers reported further significant price increases for raw materials in September. Input prices were elevated in all manufacturing sectors. They were particularly high for machinery & equipment, chemicals and metals products. Respondents reported delivery delays and shortages of imported and Australian-sourced materials, inputs and components. Record-high international freight costs are also pushing up input costs for manufacturers who import and export.



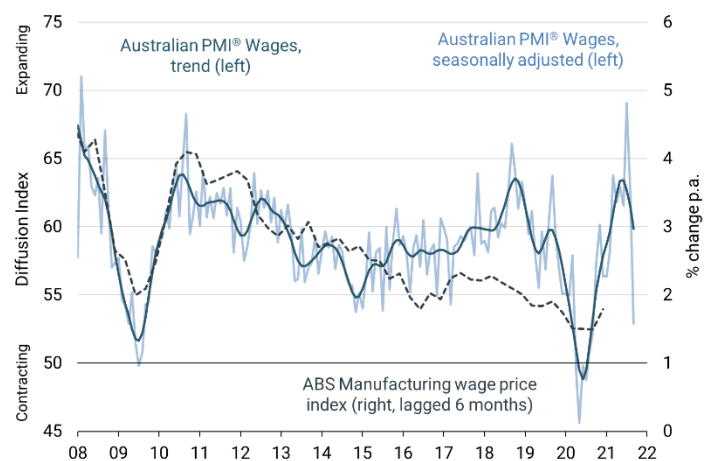
Selling prices

- Manufacturers' output (selling) prices rose by an average of 2.4% over the quarter and 3.5% over the year to Q2 of 2021 (ABS *Producer Price Index*).
- The selling price index increased by 3.0 points to 64.7 points in September (seasonally adjusted). This indicates selling prices continue to rise at a strong pace in September. This was the eighth consecutive month of accelerating price increases.
- The higher selling price index indicates that more manufacturers are passing on their higher costs to their customers, as input pricing pressures build up.



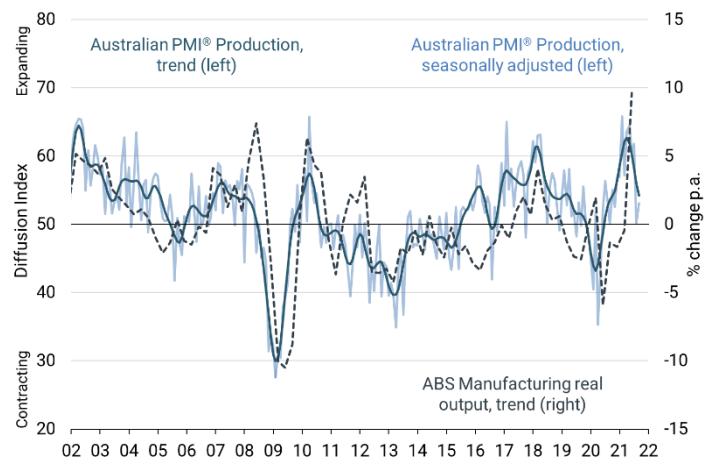
Average wages

- Private sector wages across the manufacturing industry rose by an average of 0.5% over the quarter and 1.8% p.a. in Q2 of 2021 (ABS *Wage Price Index*).
- The Australian PMI® average wages index fell by 9.5 points to 52.9 points in September, following a similar decline in August (seasonally adjusted). This is below the long-run average, indicating slower growth in wages across the manufacturing industry.
- The average wages index was elevated in the metals and chemicals sectors but stable in all other manufacturing sectors in September.



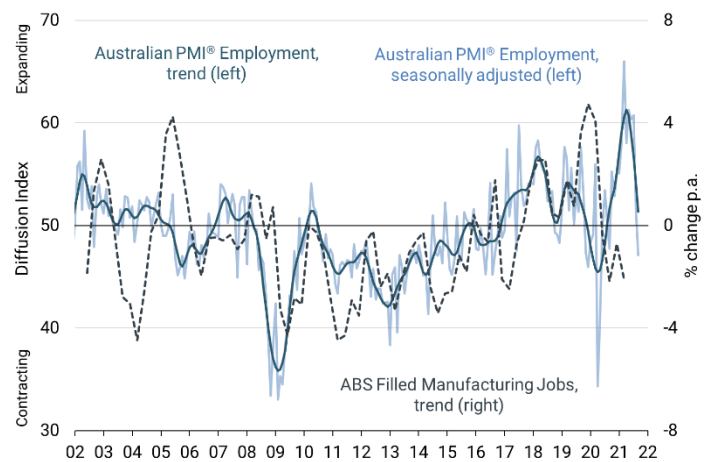
Production

- The manufacturing industry produced \$109.9bn in real value-added output in the year to Q2 2021 (5.6% of Gross Domestic Product, GDP). Manufacturers’ value-added output rose by 2.3% q/q and 1.4% y/y to Q2 2021 (ABS data).
- The Australian PMI® production index increased by 2.9 points to 53.1 points in September (seasonally adjusted), indicating a mild acceleration in production output.
- The production index moved sharply lower in NSW and Victoria due to lockdowns that included operational restrictions but remained robust in other states.



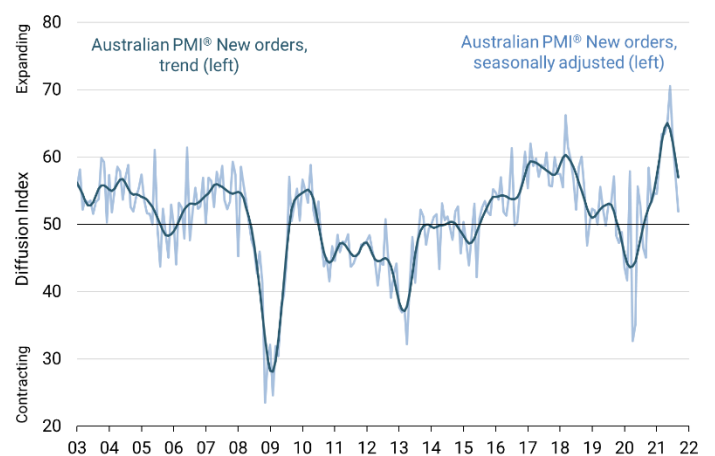
Employment

- There were 907,900 filled jobs in manufacturing in Q2 of 2021 accounting for 6.3% of all filled jobs in Australia (ABS Labour Account).
- The more timely (but more volatile) ABS Labour Force Survey identified 1,001,700 people working in manufacturing in August 2021, up by 10.1% from May 2021 and 12.8% from August 2020 (seasonally adjusted).
- The Australian PMI® employment index fell by 4.3 points to 47.1 points in September (seasonally adjusted), indicating mild fall in employment. This fall reflects operational restrictions in NSW and Victoria as well as nation-wide skill shortages.



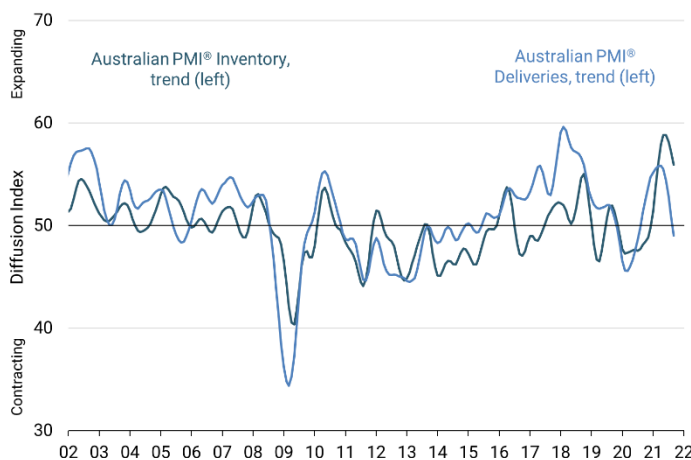
New orders

- The new orders index declined by 5.1 points but remained in mild expansion at 52.0 points in September (seasonally adjusted), its lowest since September 2020.
- The new orders index stayed in expansion due to a high result for the food & beverage and building materials sectors in September. It was lower in most other sectors. Even so, the unexpected strength in new orders for Australian manufacturers suggests a quick recovery in production and sales can be expected in the remaining months of 2021, after the current lockdown restrictions on operations are lifted and Christmas sales commence.
- Some manufacturers reported stronger interstate orders from states with locked down restrictions. Continued uncertainty due to lockdowns in NSW and Victoria have led to the cancellation and postponement of regular orders for some manufacturers. These orders are likely to resume at a later date, once lockdowns are relaxed.



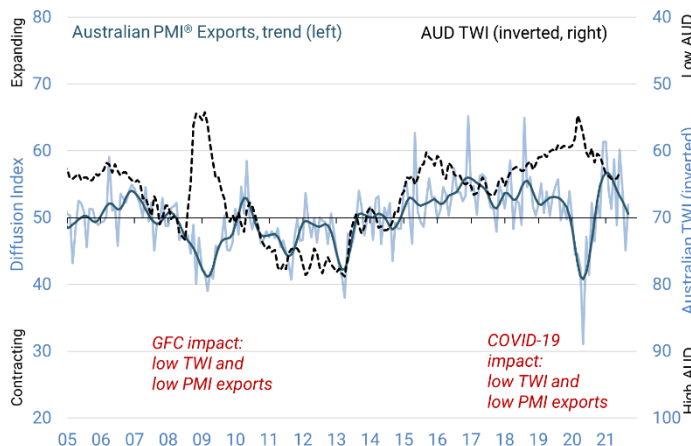
Supplier deliveries & finished stocks

- The supplier deliveries index recovered by 7.9 points to 49.2 points in September, indicating a stable month in the supply of raw materials ordered by manufacturers after last month’s decline (seasonally adjusted). This index was positive from September 2020 until July 2021, with many manufacturers increasing the size of their orders in response to global supply chain disruptions. The index is now in contraction again as manufacturers in NSW and Victoria pause the delivery of raw materials.
- The stocks (inventories) index edged 1.0 point higher to 56.0 points in September, indicating an increase in stock levels held by manufacturers, at around the same pace as August and July (seasonally adjusted). Some manufacturers are intentionally increasing their inventory levels to meet future demand and to hedge against delayed deliveries or future shortages and disruptions.



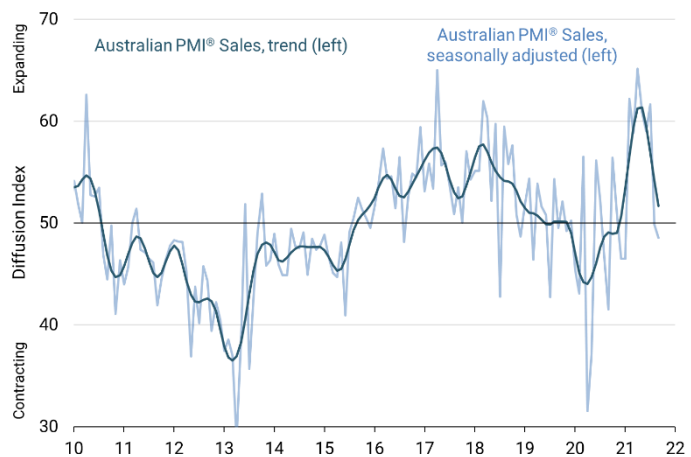
Exports

- Export earnings for Australian manufactured goods were worth \$117.2 in the year to June 2021 (25% of total annual export earnings, ABS data).
- The **Australian PMI®** exports rose by 6.8 points to 51.9 points in September (seasonally adjusted).
- Exports mildly expanded for most manufacturing exporters in September but significantly contracted for machinery & equipment and chemicals exporters.
- The trade-weighted index (TWI) – the Australian dollar weighted against trading partner currencies – is at relatively low levels in 2021. Manufacturing exports stalled in September, most likely due to pandemic-related trade disruptions.



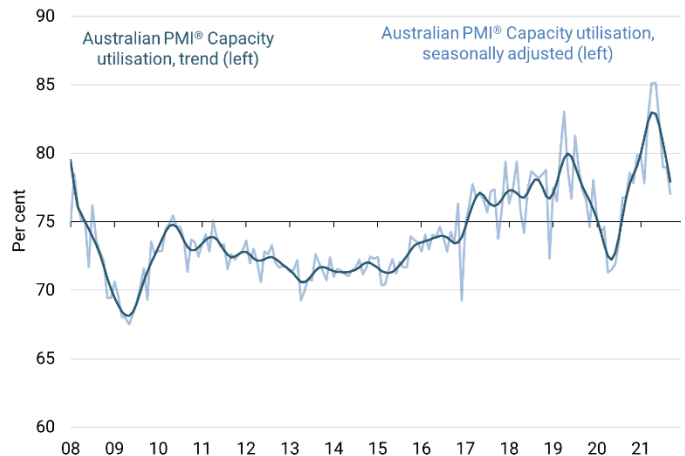
Sales

- The sales index eased by 1.4 points to 48.5 points in September (seasonally adjusted), indicating a small decline in manufacturing sales.
- Sales moderated for most manufacturing sectors in September except machinery & equipment and TCF. Sales remained weak in NSW and Victoria in September, with many manufacturers closed or operating at reduced capacity.
- This month’s result is slightly lower than the long-term average of 49.5 points for this index (since 2009).



Capacity utilisation

- Australia's manufacturers invested \$9.8bn in capital expenditure (CAPEX) over the year to Q2 2021 (real dollars).
- The **Australian PMI®** capacity utilisation index dropped to 77% of capacity being utilised in September (seasonally adjusted). Capacity utilisation was higher in the building materials and chemicals sectors than in other sectors. More respondents reported postponing their plans to invest in new equipment in September.
- The current climate of heightened uncertainty and risk aversion may mean that businesses want to run closer to their existing 'full capacity' before investing in new capacity (buildings, plant and equipment).



Australian PMI® data definitions

The Australian PMI classifies each business according to their single main activity, using the industry data codes and definitions set out in the ANZSIC 2006. These classifications are comparable with all ABS data that use these same codes. For manufacturing in the Australian PMI, the definitions of the six sectors are:

1. Food & beverage products (ANZSIC codes 11 and 121).
2. Machinery & equipment manufacturing including motor vehicles, other transport equipment, professional and scientific equipment, electrical and electronic equipment, computers, domestic appliances, pumps, compressors, heating, cooling, ventilation, specialist equipment (ANZSIC codes 23 and 24).
3. Metal products including basic ferrous, non-ferrous, fabricated iron and steel, structural metals, metal containers, sheet metal and other metal products (ANZSIC codes 21 and 22).
4. Petroleum and coal-based products, basic chemicals, chemical products, fertilisers, pesticides, pharmaceuticals and medicinal products, cleaning compounds, toiletries, polymers and rubber products (ANZSIC codes 17, 18 and 19).
5. Building materials, wood, furniture & other manufacturing products including glass, ceramic, cement, lime, plaster, concrete, wood, logs, timber, furniture & other manufacturing products (ANZSIC codes 14, 20, 25).
6. TCF, paper and printing products including textiles, leather, clothing, footwear, pulp, paper, paperboard, converted paper products printing and the reproduction of recorded media (ANZSIC codes 13, 15, 16).



What is the Australian PMI®? The Australian Industry Group Australian Performance of Manufacturing Index (Australian PMI®) is a national composite index based on the diffusion indices for production, new orders, deliveries, inventories and employment with varying weights. An Australian PMI® reading above 50 points indicates that manufacturing is generally expanding; below 50, that it is declining. The distance from 50 indicates the strength of the expansion or decline. Australian PMI® results are based on responses from a national sample of manufacturers. The Australian PMI® uses the ANZSIC industry classifications for manufacturing sectors and sector weights derived from ABS industry output data. Seasonal adjustment and trend calculations follow ABS methodology. For further economic analysis and information from the Australian Industry Group, visit www.aigroup.com.au/resourcecentre/economics.

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